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AGENDA ITEM 9

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

- I. SUBJECT:** Second Reading – Blue Shield of California's HMO High Performance Network Option for 2008
- II. PROGRAM:** Health Benefits
- III. RECOMMENDATION:** Information Only
- IV. INTRODUCTION:**

While the implementation of the Blue Shield CalPERS Provider Network in 2005 eliminated certain hospitals from the network, wide variation in physician practice patterns continues to result in significant variation in relative efficiency for providers remaining in the Blue Shield CalPERS Provider Network. This variation in physician practice patterns and new capabilities for designing alternative networks create an opportunity for Blue Shield of California (Blue Shield) and CalPERS to further differentiate providers and achieve a cost savings through the use of a high performance physician network. Such a high performance physician network will continue to ensure the high quality of care in the existing provider network, provide greater transparency regarding cost variation, encourage members to use more efficient providers, and ultimately offer CalPERS members a lower cost Blue Shield HMO plan option. This network design incorporates changes to the physician network only and not the hospital network.

V. BACKGROUND:

As a next generation of the current Blue Shield CalPERS Physician Network, Blue Shield proposes an analysis of health care efficiency and utilization variations by physician groups (Individual Practice Associations (IPAs) and Medical Groups) to identify further network options that will encourage the use of more efficient providers while maintaining quality of care. Physician groups influence not only what care is delivered, but also where it is delivered. Creating

a network that consists of physician groups that have demonstrated the ability to render more efficient, quality healthcare will provide an opportunity for substantial savings.

In developing its HPN proposal, Blue Shield evaluated three (3) options:

- Replace the current physician network with a narrower network
- Tier the current physician network through benefit design efforts, and
- Implement a new, smaller network product offered in addition to the current Blue Shield network

VI. ANALYSIS:

Blue Shield's analysis of the three network delivery models reveals significant differences:

Total Replacement

This model would replace the current network plan with a narrow network plan consisting of a reduced number of IPA/Medical Groups. Blue Shield has determined not to pursue this model as it will create major member disruptions and continuity of care issues, in both the Basic and Medicare plans. In addition, there will most likely be significant pushback from current network providers, resulting in insufficient access to care for members, and the potential loss of membership. Obtaining regulatory approval will also be a significant, time-consuming challenge.

Tiered Benefit Design

This model would provide all members the choice between two benefit designs within a single plan. Members choosing less efficient IPAs will have higher copays. Blue Shield has determined not to pursue this model as it could create member confusion in copay obligations within a single plan and because of potential conflicts with PEHMCA provisions regarding rate structure.

High Performance Network (HPN)

This model provides all members the choice between an HPN and an Extended network plan¹ for both Basic and Medicare. Members who choose the HPN will have lower monthly premiums. There is no forced disruption of care for members, and timely regulatory approval is likely. This

¹ The Extended HMO network plan will be Blue Shield's current network plan and does not include any narrowing of the physician network.

model also provides an increased incentive for members to use more efficient physicians.

Blue Shield has determined the HPN model is the only option that meets key criteria for success:

- Provides higher efficiency providers and premium savings
- Maintains access and quality of care
- Influences member selection
- Has a reasonable chance of receiving regulatory approval
- Gains provider acceptance

High Performance Network (HPN) Model

In the modeling of the proposed HPN, Blue Shield incorporated an approach centered on quality of care, access to care and reduced premium levels for as many members as possible.

Quality of Care

Blue Shield uses nationally-recognized quality metrics to ensure that IPAs identified for inclusion in the HPN do not have pervasive quality of care issues. These evidenced-based measures rely on existing Health Plan Employer Data and Information Set (HEDIS) measures, approved by the National Committee for Quality Assurance (NCQA).

In developing its quality model, Blue Shield leveraged its current quality improvement and incentive programs. Blue Shield also fully vetted its measures with, and gained support from, the medical community. These measures reflect the full spectrum of quality:

- Evidence-based clinical measures
- Patient satisfaction measures
- Appeals, grievances, and complaints

Blue Shield will exclude a provider group from the network if it fails to meet threshold levels in each of the three quality measures. Blue Shield will identify and provide improvement plans, to those provider groups who are not meeting two out of the three quality measures.

Network Selection

There are 17 counties included in the proposed HPN service area². The map in

² Note that, at this time, Blue Shield is limited from further increasing the HPN coverage area due to current contractual constraints with providers, limited network options in direct contract (DC) and exclusive provider organization (EPO) counties, and limited provider options in rural areas of some counties.

Attachment 1 identifies the geographic distribution of the HPN HMO Counties, the Partial HPN HMO Counties (those counties where less than 75 percent of CalPERS members have access to the proposed HPN network) and those counties where only the Extended HMO network plan will be available.

When developing the HPN physician network, Blue Shield evaluated the total cost of healthcare by physician group. In establishing physician selection profiles, Blue Shield aggregated data at the physician group level and included hospital, non-hospital facility, physician, ancillary, and pharmacy costs. Blue Shield used both CalPERS-specific experience and Blue Shield book of business data to reasonably assess efficiency, and adjusted the data to account for the underlying health risk of the populations currently receiving health care from the physician groups.

Blue Shield evaluated:

- Quality of care information, ensuring each IPA/Medical Group's quality data were satisfactory prior to designating as high performance
- Access and geographic coverage and the resulting potential for member disruption
- Average risk adjusted total cost of care by region
- IPA specific cost of care – unit cost and utilization for all services
- Population risk by IPA

The results delivered a network that is smaller, but offers a significantly lower premium while maintaining current quality and access to care standards. It also provides for full transparency between more efficient and less efficient IPA/Medical Groups.

The HPN includes 81 IPAs, or 37 percent of the 221 IPAs in the current network in the HPN HMO counties. This represents 50 percent of the available Primary Care Physicians and 49 percent of Specialists and OB/GYN physicians.

The HPN network provides a platform in which 52 percent of CalPERS Blue Shield members (202,000) could opt into the HPN. Approximately 32 percent of CalPERS Blue Shield members (125,000) are already seeking care from physicians that will be part of the HPN. An additional 20 percent of CalPERS Blue Shield members (77,000) will have access to the HPN. Blue Shield will target this population for migration to these more efficient providers.

Premium Impact

An analysis of projected premiums for members in the proposed HPN reveals an across the board premium reduction for both state employees and public agency employees. Premiums for members that choose the extended (current) network will increase due to the utilization of less efficient providers.

Under the HPN, composite premiums for members in the HPN Basic and Medicare plans will decrease 6 to 8 percent from the status quo premium.

Members remaining in the extended network Basic and Medicare plans will see an increase in premiums of 3 to 5 percent from the status quo. The resulting difference between the two premiums (10 to 14 percent) will provide an incentive for members to choose the more efficient network and gain the premium savings. The table in Attachment 2 illustrates the projected change in premiums, as well as the variance between the HPN and the extended network choices.

Member Migration and Healthcare Cost Savings

In addition to the savings in monthly member premium resulting from the proposed HPN, CalPERS will realize a reduction in healthcare costs. Overall savings to healthcare costs will occur when members currently using less efficient providers move to more efficient providers or pay a higher premium to remain with less efficient providers. Additional savings can occur when providers change behavior and refer members to higher efficiency HPN providers.

There is a potential for 77,000 (20 percent of the total CalPERS Blue Shield membership) members in the HPN service areas to switch to the more efficient network. The ability to influence these members to move is dependent on several variables:

- Member education/communication plan
- Premium differential
- Provider loyalty

Blue Shield will develop customized education/communication plans to maximize member migration. Attachment 3 illustrates the cost savings impact for each 5 percent of the 77,000 members that switch to the HPN. Overall savings could range from \$2 million to \$17 million in 2008.

Implementation and Next Steps

Blue Shield will provide more detail to CalPERS staff and will educate key constituent groups regarding Blue Shield's HPN product, as it works to finalize its proposal for possible action at a future Health Benefits Committee meeting. Once approved by the CalPERS Board, Blue Shield will file for DMHC approval and begin implementation efforts toward a January 1, 2008 effective date.

VII. STAFF RECOMMENDATION:

This is an information item.

VIII. STRATEGIC GOAL:

This item supports the CalPERS strategic plan which states, "Develop and administer quality, sustainable health benefits programs that are responsive to and valued by enrollees and employers."

IX. RESULTS/COSTS:

This is an information item only. Paul Markovich, Senior Vice President, Large Group Business Unit, Blue Shield of California will make a detailed presentation to be distributed at the Health Benefits Committee meeting.

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Attachments

